

PLANNING AND DEVELOPMENT DISTRICT III

**FINANCIAL REPORT
(Audited)**

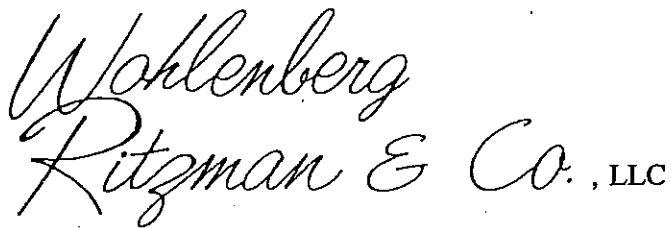
DECEMBER 31, 2011

PLANNING AND DEVELOPMENT DISTRICT III

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certified public accountants

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Planning and Development District III
Yankton, South Dakota

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of **PLANNING AND DEVELOPMENT DISTRICT III**, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Planning and Development District III's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, and each major fund of Planning and Development District III, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2012 on our consideration of Planning and Development District III's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be in essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Planning and Development District III's basic financial statements as a whole. The Schedule of Indirect Costs – General Government is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations* and is also not a required part of the financial statements. The Schedule of Indirect Costs – General Government and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wohlsberg, Ritzman & Co., LLC

Yankton, South Dakota
August 20, 2012

Management's Discussion and Analysis Planning & Development District III For the Year Ended December 31, 2011

This section of Planning & Development District III's (District III's) annual financial report presents our discussion and analysis of District III's financial performance during the fiscal year ended on December 31, 2011. This discussion and analysis considers only the Primary Government's financial activity. Please read it in conjunction with District III's financial statements.

Discussion of the basic financial statements

This annual report consists of two parts:

- 1. Management's discussion and analysis (this section)**
- 2. Basic financial statements**, including related notes that explain some of the information in the financial statements and provide more detailed data

The basic financial statements include two kinds of statements:

- a) The *government-wide financial statements* (Statement of Net Assets and the Statement of Activities) provide information about the activities of District III as a whole and present a longer-term view of District III's finances.

These statements report information about District III as a whole and about its activities that help answer the question, "Is District III as a whole better off or worse as a result of the year's activities?" These statements include all assets and liabilities using methods of accounting similar to those used by most private-sector companies.

These statements report District III's net assets and changes in them. District III's net assets, the difference between assets (what District III owns) and liabilities (what District III owes) is one way to measure District III's financial health. Over time, increases or decreases in District III's net assets are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as continuing county and city government membership, also need to be considered to assess the overall health of District III.

The government-wide financial statements of District III are reported in two categories:

1. Governmental Activities – This category includes most of District III's basic services.
2. Component Units – This category includes Areawide Business Council, Inc (a revolving loan fund) and Prairieland Housing Development (a

housing program). Although these are legally separate entities, District III has close ties to these entities.

- b) The *fund financial statements* (Balance Sheet-Governmental Funds; Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets; Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds; and Reconciliation of Statement of the Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities) tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report District III's operations in more detail than the government-wide statements.

The fund financial statements of District III are reported in two categories:

1. General Fund – This category includes most of District III's basic services.
2. Special Revenue Fund – This category includes money to be used for economic development activities.

Condensed Financial Information

Table A-1 Condensed Statement of Net Assets		
	Governmental Activities	
	2010	2011
Current and Other Assets	\$ 1,295,368	\$ 1,637,462
Capital Assets	180,612	188,700
Total Assets	1,475,980	1,826,162
Other Liabilities	156,992	129,872
Total Liabilities	156,992	129,872
Invested in Capital Assets	180,612	188,700
Restricted	9,704	389,704
Unrestricted	1,128,672	1,117,886
Total Net Assets	\$ 1,318,988	\$ 1,696,290
Beginning Net Assets	1,243,598	1,318,988
Change in Net Assets	\$ 75,390	\$ 377,302

Table A-2 Condensed Statement of Activities		
	Governmental Activities	
	2010	2011
Revenues		
Program Revenues		
Charges for Services	\$ 612,627	\$ 669,882
Operating Grants	959,593	975,459
General Revenues		
Investment Earnings	6,496	3,717
Total Revenues	<u>1,578,716</u>	<u>1,649,058</u>
Expenses		
General Government	1,503,326	1,271,756
Economic Development	-	-
Total Expenses	<u>1,503,326</u>	<u>1,271,756</u>
Change in Net Assets	75,390	377,302
Beginning Net Assets	<u>1,243,598</u>	<u>1,318,988</u>
Ending Net Assets	<u>\$ 1,318,988</u>	<u>\$ 1,696,290</u>

Analysis of Overall Financial Position

Governmental Activities:

District III's overall financial position improved, with a 29% increase in net assets.

The income from revenue-producing projects increased by 5% or about \$73,000. Expenses decreased by 15% or about \$230,000. A major factor in the expenses decrease was a \$400,000 pass-through of grant funds to a sub-recipient in 2010. Without consideration of pass-through funds, expenses would have increased by 10% or \$150,000. This increase is mostly due to a new project which included \$144,000 in payments to outside consultants.

The staffing level held constant. Employee experience, institutional history, and contacts with other agencies are important factors in District III's success. Staff continuity, which is vital to District III's financial health, was maintained.

Local government support continued at the previous year's level, with a total membership of 15 counties, 2 tribes, and 59 cities/towns. All local government members maintained their membership in District III for 2011. Since the previous year's Consumer Price Index was negative, District III held the dues at the 2009 amounts.

The Special Revenue Fund consists of money received in past years from the State of South Dakota and donations from area businesses for the purpose of economic development activities. No expenditures were made from this fund in 2011.

Analysis of Balances and Transactions of Individual Funds

Changes in year-end fund balance:

	<u>2010</u>	<u>2011</u>	<u>Change</u>
General Fund	\$ 1,161,800	\$ 1,531,670	\$ 369,870
Special Revenue Fund	<u>4,641</u>	<u>4,643</u>	<u>2</u>
Total Net Assets	<u>\$ 1,166,441</u>	<u>\$ 1,536,313</u>	<u>\$ 369,872</u>

The financial analysis of District III's funds mirrors those highlighted in the analysis of governmental activities presented under Analysis of Overall Financial Position.

\$380,000 of the General Fund is restricted for use in economic development activities.

Significant Capital Asset and Long-Term Debt Activity

	2010	2011
Land	24,189	24,189
Building & Improvements	146,426	140,630
Furniture and Equipment	<u>9,998</u>	<u>23,881</u>
Capital Assets (net)	\$ 180,613	\$ 188,700

District III follows a capital assets policy which expenses all items with a cost of less than \$5,000.

During 2011, District III capitalized \$29,950 for vehicles purchased.

	Governmental Activities		Total Change	
	2010	2011	Dollar Amount	Percentage Amount
Compensated Absences	\$ 28,065	\$ 28,723	\$ 658	2.34%
Total Long-Term Liabilities	\$ 28,065	\$ 28,723	\$ 658	2.34%

The long-term liabilities represents annual leave accrued which would be payable to employees upon termination.

District III has no other long-term debt, and no plans for additional facilities or services that will require it to borrow money.

**Currently Known Conditions Expected to have a Significant Effect on
Next Year's Operations**

The number of counties, Tribes, and towns/cities maintaining membership in District III for 2012 has remained at 2011 levels. The dues for 2012 will increase an average of 2.3%, to correspond with the 2010 increase in the Consumer Price Index.

Overall revenues for 2012 are expected to decrease slightly as well as expenses, due to the end of several projects.

Basic governmental services, such as grant-writing and zoning ordinance consultation, should remain steady.

District III does not expect to make any contributions to Prairieland Housing Development to assist in the carrying costs of one final house.

Staff levels are expected to be maintained at the 2011 level.

Contacting District III's Financial Management

This financial report is designed to provide a general overview of District III's finances and to demonstrate District III's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Planning & Development District III
PO Box 687
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The component units do not issue separate financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

STATEMENT OF NET ASSETS DECEMBER 31, 2011

	<u>Primary Government</u>	<u>Total Component Units</u>
Assets		
Cash and cash equivalents	\$ 437,418	\$ 984,213
Certificates of deposit	422,482	1,085,783
Accounts receivable, less allowance of \$-0-	592	1,292
Due from other governments	240,260	25,589
Accrued interest receivable	1,030	13,121
Inventory for resale	-	109,100
Prepaid expenses	27,727	1,837
Receivable from component unit	16,221	-
Deposit	9,704	-
Promise to give, less allowance of \$-0-	380,000	-
Notes receivable, net	90,230	3,106,555
Capital Assets		
Capital assets, not being depreciated	24,189	-
Capital assets, being depreciated, net	164,511	-
Assets held on behalf of others	<u>11,798</u>	<u>80,847</u>
Total Assets	<u>1,826,162</u>	<u>5,408,337</u>
Liabilities		
Accounts payable	53,620	665
Payable to primary government	-	19,565
Interest payable	-	3,894
Assets held on behalf of others	11,798	80,847
Deferred revenue	35,731	3,320
Long-term liabilities:		
Portion due or payable within one year:		
Notes payable	-	275,829
Compensated absences	28,723	-
Portion due or payable after one year:		
Notes payable	<u>-</u>	<u>2,086,828</u>
Total Liabilities	<u>129,872</u>	<u>2,470,948</u>
Net Assets		
Invested in capital assets	188,700	-
Restricted for:		
Insurance deposit	9,704	-
Contribution to component unit	380,000	-
Debt covenant	-	110,206
Unrestricted	<u>1,117,886</u>	<u>2,827,183</u>
Total Net Assets	<u>\$ 1,696,290</u>	<u>\$ 2,937,389</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Program Revenues			Net Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	Component Unit
Primary government:					
Governmental activities:					
General government	\$ 1,271,756	\$ 669,882	\$ 975,459	\$ 373,585	
Economic development	-	-	-	-	
Total Primary Government	<u>\$ 1,271,756</u>	<u>\$ 669,882</u>	<u>\$ 975,459</u>	<u>373,585</u>	
Total Component Units	<u>\$ 120,071</u>	<u>\$ 187,426</u>	<u>\$ 153,399</u>		<u>\$ 220,754</u>
General revenues:					
Unrestricted investment earnings				3,717	8,505
Miscellaneous revenues				-	1,931
Total general revenues				<u>3,717</u>	<u>10,436</u>
Change in net assets				377,302	231,190
Net assets, beginning				<u>1,318,988</u>	<u>2,679,225</u>
Net assets, ending				<u>\$ 1,696,290</u>	<u>\$ 2,910,415</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Economic Development Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 432,775	\$ 4,643	\$ 437,418
Certificates of deposits	422,482	-	422,482
Accounts receivable, less allowance of \$-0-	592	-	592
Due from other governments	240,260	-	240,260
Accrued interest receivable	1,030	-	1,030
Due from component unit	16,221	-	16,221
Prepaid expenses	27,727	-	27,727
Deposits	9,704	-	9,704
Promise to give, less allowance of \$-0-	380,000	-	380,000
Note receivable	90,230	-	90,230
Assets held on behalf of others			
Cash	<u>11,798</u>	<u>-</u>	<u>11,798</u>
Total Assets	<u><u>\$ 1,632,819</u></u>	<u><u>\$ 4,643</u></u>	<u><u>\$ 1,637,462</u></u>
Liabilities and Fund Balance			
Accounts payable	\$ 53,620	\$ -	\$ 53,620
Assets held for others	11,798	-	11,798
Deferred revenue	<u>35,731</u>	<u>-</u>	<u>35,731</u>
Total Liabilities	101,149	-	101,149
Nonspendable			
Cumulative Reserve Fund	9,704	-	9,704
Restricted			
Contribution to component unit	380,000	-	380,000
Unassigned	<u>1,151,670</u>	<u>4,643</u>	<u>1,146,609</u>
Total Fund Balance	<u>1,531,670</u>	<u>4,643</u>	<u>1,526,609</u>
Total Liabilities and Fund Balance	<u><u>\$ 1,632,819</u></u>	<u><u>\$ 4,643</u></u>	<u><u>\$ 1,627,758</u></u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011

Total fund balances for governmental funds \$ 1,536,313

Total net assets reported for governmental activities in the
statement of net assets is different because:

Capital assets used in governmental activities are not financial
resources, therefore are not reported in the funds.
Those assets consist of:

Land	24,189	
Building and improvements, net of \$25,373 accumulated depreciation	140,630	
Equipment, net of \$103,295 accumulated depreciation	3,343	
Vehicles, net of \$58,748 accumulated depreciation	<u>20,538</u>	
		188,700

Accrued leave payable is not due and payable in the
current period and therefore is not reported in the funds.
Balance at December 31, 2011 is:

Compensated absences	<u>(28,723)</u>
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Total net assets of governmental activities \$ 1,696,290

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Economic Development Fund</u>	<u>Total Governmental Funds</u>
Revenues			
Operating Grants and Contracts:			
From federal agencies			
Department of Agriculture	\$ 23,567	\$ -	\$ 23,567
Small Business Administration	100,333	-	100,333
Department of Commerce	200,279	-	200,279
Department of Transportation	63,440	-	63,440
Department of Environmental Protection	39,000	-	39,000
Department of Defense	40,039	-	40,039
State funding	89,300	-	89,300
Local funding	19,500	-	19,500
Charges for Goods and Services:			
Fees for services	347,372	-	347,372
Local dues	262,075	-	262,075
Component unit fees	60,435	-	60,435
General Revenue:			
Donations	400,000	-	400,000
Interest income	3,715	2	3,717
Total Revenues	<u>1,649,055</u>	<u>2</u>	<u>1,649,057</u>
Expenditures			
General Government:			
Personnel	634,987	-	634,987
Employee benefits and payroll taxes	127,167	-	127,167
Occupancy	21,513	-	21,513
Capital outlay	29,950	-	29,950
Consulting	183,089	-	183,089
Travel and vehicle expense	30,920	-	30,920
Equipment expense	57,568	-	57,568
Materials and supplies	18,291	-	18,291
Professional fees	11,990	-	11,990
Postage	5,044	-	5,044
Insurance	6,849	-	6,849
Miscellaneous	3,140	-	3,140
Advertising	1,398	-	1,398
Grant to subrecipient - component unit	147,279	-	147,279
Total Expenditures	<u>1,279,185</u>	<u>-</u>	<u>1,279,185</u>
Net Change in Fund Balances	369,870	2	369,872
Fund Balances, Beginning of Year	<u>1,161,800</u>	<u>4,641</u>	<u>1,166,441</u>
Fund Balances, End of Year	<u>\$ 1,531,670</u>	<u>\$ 4,643</u>	<u>\$ 1,536,313</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

**RECONCILIATION OF STATEMENT OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Net change in fund balances - total governmental funds \$ 369,872

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$29,950) exceeded depreciation (\$21,862) in the current period.

8,088

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. The adjustment combines the net changes.

Compensated absences

(658)

Changes in net assets of governmental activities

\$ 377,302

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

**COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
DECEMBER 31, 2011**

	<u>Areawide Business Council, Inc.</u>	<u>PrairieLand Housing Development</u>	<u>Total Component Units</u>
Assets			
Cash and cash equivalents	\$ 976,309	\$ 7,904	\$ 984,213
Certificates of deposit	1,085,783	-	1,085,783
Accounts receivable, less allowance of \$-0-	1,292	-	1,292
Due from other governments	25,589	-	25,589
Accrued interest receivable	13,121	-	13,121
Inventory			
House for sale	-	109,100	109,100
Prepaid expense	1,645	192	1,837
Notes receivable, net	3,106,555	-	3,106,555
Assets held on behalf of others			
Cash	26,660	-	26,660
Certificates of deposit	20,368	-	20,368
Due from other governments	10,536	-	10,536
Accrued interest receivable	82	-	82
Notes receivable, net of allowance for loan losses of \$20,131	<u>23,201</u>	<u>-</u>	<u>23,201</u>
Total Assets	<u>5,291,141</u>	<u>117,196</u>	<u>5,408,337</u>
Liabilities			
Accounts payable	-	665	665
Due to primary government	19,565	-	19,565
Deferred revenue	-	3,320	3,320
Accrued interest expense	3,894	-	3,894
Assets held on behalf of others	80,847	-	80,847
Notes payable	<u>2,274,407</u>	<u>88,250</u>	<u>2,362,657</u>
Total Liabilities	<u>2,378,713</u>	<u>92,235</u>	<u>2,470,948</u>
Net Assets			
Restricted for debt covenant	110,206	-	110,206
Unrestricted	<u>2,802,222</u>	<u>24,961</u>	<u>2,827,183</u>
Total Net Assets	<u>\$ 2,912,428</u>	<u>\$ 24,961</u>	<u>\$ 2,937,389</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

**COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Areawide Business Council, Inc.</u>	<u>PrairieLand Housing Development</u>	<u>Total Component Units</u>
Operating Revenues			
Interest income - loans	\$ 187,426	\$ -	\$ 187,426
Contributions	26,120	-	26,120
Bad debt recovery	26,974	-	26,974
Passed through grant from primary government			
Department of Commerce	127,279	-	127,279
Total Operating Revenues	<u>367,799</u>	<u>-</u>	<u>367,799</u>
Operating expenses			
Payments to primary government	65,144	-	65,144
Insurance	8,549	1,856	10,405
Professional fees	7,038	10	7,048
Contract services	6,001	-	6,001
Honorariums	2,160	-	2,160
Miscellaneous	8,703	24	8,727
Travel	1,040	-	1,040
Real estate taxes	-	1,527	1,527
Total Operating Expenses	<u>98,635</u>	<u>3,417</u>	<u>102,052</u>
Operating income	<u>269,164</u>	<u>(3,417)</u>	<u>265,747</u>
Nonoperating Expenses (Revenues)			
Interest expense	18,019	-	18,019
Interest income - savings	(8,505)	-	(8,505)
Rent income	-	(1,931)	(1,931)
Total Nonoperating Expense	<u>9,514</u>	<u>(1,931)</u>	<u>7,583</u>
Income (loss) before transfers	259,650	(1,486)	258,164
Transfer to primary government	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets	259,650	(1,486)	258,164
Net Assets, beginning of year	<u>2,652,778</u>	<u>26,447</u>	<u>2,679,225</u>
Net Assets, end of year	<u>\$ 2,912,428</u>	<u>\$ 24,961</u>	<u>\$ 2,937,389</u>

The accompanying notes are an integral part
of these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Planning And Development District III is a single purpose government district established by an Executive Order of the Office of the Governor of the State of South Dakota and is governed by an elected seven-member executive board. As required by generally accepted accounting principles, these financial statements present Planning and Development District III (the primary government) which includes all the funds and its component units. The component units are included in the District's reporting entity because of the significance of their operational and financial relationship with the District.

Planning And Development District III is primarily involved in providing technical assistance and planning in the economic development of counties, cities and towns within its district.

The component unit column in the financial statements includes the financial data of Planning and Development District III's component units. Areawide Business Council, Inc. (a non-profit organization) and Prairieland Housing Development (a non-profit organization) are reported in a separate column to emphasize that they are legally separate from the District.

The Areawide Business Council, Inc. was established to promote and assist the growth and development of business and industrial opportunity by use of a revolving loan program as a long-term capital lender in fourteen designated counties in South Dakota.

- a. The Revolving Loan Fund program is subject to the rules and regulations of the Department of Commerce, which includes the provision, that a non-funded allowance for loan losses is permitted.
- b. The Intermediary Relending Program is subject to the rules and regulations of the Department of Agriculture, which include the provision, that an allowance for loan losses is permitted. An allowance for loan losses is initially set at 4.5 percent of the original loan balance.

Prairieland Housing Development was incorporated in 2004, as an entity to assist in providing affordable housing in small towns in the District's service area. The housing will be sold to persons meeting the income and asset limits set by the South Dakota Housing Development Authority.

The component units do not issue separate financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. These statements include the financial activities of the overall government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges, including interest paid under loan programs, provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method revenues are recognized when measurable and available.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Under this method the District considers all revenues to be available if the revenues are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

Grants and entitlements and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the District receives cash.

Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

The District has determined that both government funds will always be considered to be major funds and reports them as follows:

General Fund – The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of South Dakota and the bylaws of the District.

Economic Development Fund – This Special Revenue Fund accounts for revenue derived from grants and contributions that are used to promote economic development in the District. The Special Revenue Fund is considered a major fund for reporting purposes.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Measurement Focus and Basis of Accounting, continued

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within nine months of fiscal year-end. Under the modified accrual basis, only interest is considered to be both measurable and available at fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

Expenses/Expenditures

On an accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

Cash and Cash Equivalents

The District includes all cash accounts not subject to withdrawal restrictions or penalties, treasury bills, commercial paper and money market funds with a maturity of three months or less as cash on the accompanying balance sheet. Certificates of deposits, regardless of maturity, are not considered to be cash and cash equivalent.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Notes Receivable

Notes receivable in the component unit consist of revolving loan funds that are generally not expected or scheduled to be collected in the subsequent year.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported on the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$5,000 on all capital assets.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Capital Assets, continued

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20-40
Equipment	3-15
Vehicles	3-5

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual leave balances. Full time permanent employees and part-time permanent employees working 20 hours or more per week are granted vacation benefits in prorated amounts to specified maximums. Sick leave accrues to full-time, permanent employees and part time permanent employees working 20 hours or more per week to specified maximums. Employees are entitled to all accrued vacation leave upon termination. Employees will not receive monetary compensation for accrued sick leave upon termination.

All compensated absences of the District are considered current liabilities.

Program Revenues

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services - member dues - All member governments are required to pay dues to the District in order to belong to the organization and receive membership services. Dues are determined by census results and are recognized as revenues when assessed because they are measurable and collectible within the current period.
2. Charges for services - other contract revenues - These are program specific operating grants and contracts from other than federal sources.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Program Revenues, continued

3. Federal grants and contracts - These are program specific operating grants arising from mandatory and voluntary non-exchange transactions with other governments which fund the District's programs. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the providers have been met. Such revenue is subject to review by the funding agency. Minor adjustments may result in subsequent periods.

Equity Classifications

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Nonspendable, Restricted, Committed, Assigned and Unassigned components.

Application of Net Assets

It is the District's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the District classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Board of Directors.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Income Taxes - Component Units

Areawide Business Council, Inc. and Prairieland Housing Development are exempt from income taxes under Section 501(C)(3) of the Internal Revenue Code; accordingly, no provision for income taxes is made in these financial statements.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

Indirect Costs

The District employs the use of an indirect cost plan. Allowable indirect costs were 55% of direct labor, allowable fringe benefit rate was 29% of direct labor and allowable indirect facility costs were 5% of direct labor for 2011. Direct costs are charged against each project as costs are paid. A new indirect cost plan is prepared annually. Costs benefiting future periods are capitalized and amortized to expense utilizing the indirect cost plan. Indirect costs are applied ratably to all activities of the District.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America that requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting

The District is not legally required to adopt a budget; therefore it is not required to present a budgetary comparison for the general and special revenue fund as required supplementary information.

Deferred Revenue

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

2. DEPOSITS AND INVESTMENTS

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - Deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

Investments - In general, SDCL 4-5-6 permits funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Investments - As of December 31, 2011, the District had no investments.

Custodial Credit Risk - Deposits - Primary Government - The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District has an investment policy, but it does not address custodial credit risk. As of December 31, 2011, the District's deposits were fully insured or collateralized in local banks.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

2. DEPOSITS AND INVESTMENTS, continued

Custodial Credit Risk – Deposits – Component Unit – The risk that, in the event of a depository failure, the Component Unit's deposits may not be returned to it. The Component Unit has an investment policy, but it does not address custodial credit risk. As of December 31, 2011, the Component Unit's deposits were fully insured or collateralized in local banks. The Component Unit has \$95,000 in a brokered certificate of deposit placed with an investment dealer. It is considered to be fully insured; however, it is held in brokerage accounts and not in safekeeping. Thus, this certificate is subject to custodial credit risk.

Authorized Investments - The District has adopted an investment policy but it does not further limit investments beyond those imposed by statutes. As of December 31, 2011, the District had no investments.

Interest Rate Risk - The District has an investment policy, but it does not limit its investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of December 31, 2011, the District had no investments.

Credit Risk - State law limits eligible investments of the District, as discussed above. The District has an investment policy but it does not further limit its investment choices. As of December 31, 2011, they had no investments.

Concentration of Credit Risk - The District's investment policy places no limit on the amount that may be invested in any one issuer. As of December 31, 2011, the District's had no investments.

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements.

Receivables are primarily due from various programs. Management anticipates all receivables to be collected within one year, therefore, no allowance for doubtful accounts has been provided for these receivables.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

4. NOTES RECEIVABLE

Primary Government

The following is a note receivable to the primary government:

Note receivable – Component Unit	<u>\$ 90,230</u>
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The following are maturities of long-term note receivable:

2011	\$ 12,890
2012	12,890
2013	12,890
Thereafter	<u>51,560</u>
	<u>\$ 90,230</u>

Component Unit

The following is a summary of the notes receivable for the component unit:

Intermediary Relending Program	\$ 1,675,174
Revolving Loan Fund – EDA	1,486,275
Revolving Loan Fund	<u>87,345</u>
	3,248,794
Less: Allowance for Loan Losses	
Intermediary Relending Program	(110,206)
Revolving Loan Fund – EDA	(30,286)
Revolving Loan Fund	<u>(1,747)</u>
	<u>\$ 3,106,555</u>

The following are maturities of long-term notes receivable:

2012	\$ 708,465
2013	611,243
2014	1,105,084
2015	282,933
Thereafter	<u>541,069</u>
	<u>\$ 3,248,794</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued **DECEMBER 31, 2011**

4. NOTES RECEIVABLE, continued

An analysis of the change in the allowance for loan losses is as follows:

Beginning balance	\$ 169,213
Provision for loan losses	(26,974)
Recoveries	-
Loans charged off	-
	<u>\$ 142,239</u>

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets is as follows:

Primary Government

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Government Activities:				
<i>Capital assets not being depreciated</i>				
Land	\$ 24,189	\$ -	\$ -	\$ 24,189
<i>Capital assets being depreciated</i>				
Buildings and improvements	166,003	-	-	166,003
Equipment	140,097	-	33,459	106,638
Vehicles	49,336	29,950	-	79,286
Total capital assets being depreciated	<u>355,436</u>	<u>29,950</u>	<u>33,459</u>	<u>351,927</u>
Less accumulated depreciation for:				
Buildings and improvements	19,578	5,795	-	25,373
Equipment	134,086	2,668	33,459	103,295
Vehicles	45,349	13,399	-	58,748
Total accumulated depreciation	<u>199,013</u>	<u>21,862</u>	<u>33,459</u>	<u>187,416</u>
Total capital assets being depreciated, net	<u>156,423</u>	<u>8,088</u>	<u>-</u>	<u>164,511</u>
Governmental activities capital assets, net	<u>\$ 180,612</u>	<u>\$ 8,088</u>	<u>\$ -</u>	<u>\$ 188,700</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS – continued
DECEMBER 31, 2011

5. CHANGES IN CAPITAL ASSETS, continued

Depreciation expense charged to general government was \$21,862.

The District is in possession of equipment in the amount of \$15,638, of which the State of South Dakota holds title.

6. LEASE COMMITMENTS

Operating lease obligations are primarily for rental of office equipment. Lease expenses for the year were \$8,762.

Future minimum lease payments required by the primary government for non-cancellable operating leases are:

2012	\$ 8,478
2013	8,478
2014	7,111
2015	6,654
2016	<u>6,654</u>
	<u>\$ 37,375</u>

7. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities is as follows:

Primary Government:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated Absences	<u>\$ 28,065</u>	<u>\$ 28,723</u>	<u>\$ 28,065</u>	<u>\$ 28,723</u>	<u>\$ 28,723</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS – continued
DECEMBER 31, 2011

7. LONG-TERM LIABILITIES, continued

Component Units

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Intermediary Relending Program - 1	286,964	-	13,049	273,915	13,180
Intermediary Relending Program - 2	651,178	-	25,326	625,852	25,575
Intermediary Relending Program - 3	725,659	-	24,582	701,077	24,823
REDI Loan	207,350	-	207,350	-	-
East River Electric	208,334	-	33,334	175,000	33,333
East River Electric	486,111	-	77,778	408,333	77,778
South Dakota Housing Develop- ment Authority	88,250	-	-	88,250	88,250
Planning & Development District III	<u>103,120</u>	<u>-</u>	<u>12,890</u>	<u>90,230</u>	<u>12,890</u>
Component Unit, Long-Term Liabilities	<u>2,756,966</u>	<u>-</u>	<u>394,309</u>	<u>2,362,657</u>	<u>275,829</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS – continued DECEMBER 31, 2011

7. LONG-TERM LIABILITIES, continued

Debt service requirements on long-term debt for the Component Units as of December 31, 2011, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 275,829	\$ 16,009	\$ 291,838
2013	188,215	15,373	203,588
2014	188,858	14,731	203,588
2015	189,506	14,082	203,588
2016	190,161	13,427	203,588
2017-2021	394,416	57,079	451,494
2022-2026	358,245	39,692	397,937
2027-2031	360,226	21,421	381,648
2032-2036	<u>217,201</u>	<u>5,608</u>	<u>222,808</u>
	<u>\$ 2,362,657</u>	<u>\$ 197,421</u>	<u>\$ 2,560,078</u>

The Component Unit, Areawide Business Council, Inc. has restricted cash balances totaling \$110,206 for the year ended December 31, 2011, as a Loan Reserve. This balance reflects 6% of the outstanding principal balances of notes funded through the Rural Development's intermediary Relending Program.

8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2011, the District managed its risks as follows:

Employee Health Insurance

The District purchases health insurance from a commercial insurance carrier.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS – continued DECEMBER 31, 2011

8. RISK MANAGEMENT, continued

Liability Insurance

The District purchases insurance coverage for its buildings and contents from a commercial insurance carrier. The deductible for this coverage varies from \$250 to \$1,000.

The District joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The District's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the District. The District pays an annual premium to the pool to provide coverage for general liability, auto liability and damage, and errors and omissions of public officials.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The District carries a \$500 deductible for the official liability. The remaining coverages are \$-0- deductible.

A portion of the member premiums is also allocated to a cumulative reserve fund. After six years, the fund is fully vested and the District would be eligible to receive a refund for the full vested amount.

As of December 31, 2011, the District has a fully vested balance in the cumulative reserve fund of \$9,704.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

8. RISK MANAGEMENT, continued

Worker's Compensation

The District joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The District pays an annual premium, to provide worker's compensation coverage to its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date to the Fund Members. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to \$2,000,000 per individual per incident.

The District does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits

The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

9. COMMITMENTS AND CONTINGENCIES

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2011 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

10. RELATED PARTY TRANSACTIONS

Operating income for the District includes fees of \$60,435 received from its component unit, Areawide Business Council, Inc.

Operating income for the Areawide Business Council, Inc. includes contributions from the District of \$6,120.

The District received grant funds from EDA Revolving Loan Program in the amount of \$127,279, which was passed through to the District's component unit, Areawide Business Council, Inc.

11. PROMISE TO GIVE

The District has received a conditional promise to give cash in the amount of \$400,000. This contribution is to be used as a regional revolving loan fund that will be administered by the District's component unit, Areawide Business Council, Inc. The cash received in the fiscal year ended December 31, 2011 was \$20,000.

Promise receivable in less than one year	\$ 20,000
Promise receivable in one to five years	100,000
Promise receivable in more than five years	260,000
Less allowance for uncollectible promise receivable	<u>-</u>
	<u>\$ 380,000</u>

PLANNING AND DEVELOPMENT DISTRICT III

NOTES TO FINANCIAL STATEMENTS - continued DECEMBER 31, 2011

12. RETIREMENT PLAN

All employees, except for part-time employees who work less than twenty hours per week and temporary employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited services. Authority for establishing, administering and amending plan provisions are found in South Dakota codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, South Dakota 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute 6.0% at their salary to the plan, while public safety and judicial employees contribute at 8.0% and 9.0% respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2011, 2010, and 2009, were \$36,834, \$35,623 and \$35,104, respectively, equal to the required contributions each year.

SUPPLEMENTARY INFORMATION

PLANNING AND DEVELOPMENT DISTRICT III

**SCHEDULE OF INDIRECT COSTS - GENERAL GOVERNMENT
FOR THE YEAR ENDED DECEMBER 31, 2011**

Indirect Building Costs

Repairs and maintenance	\$ 3,759
Utilities	6,125
Depreciation	5,937
Insurance	1,291
Supplies	596
Real estate taxes	<u>164</u>

Total Indirect Building Costs 17,872

Indirect Overhead Costs

Salaries, payroll taxes and benefits	173,478
Supplies and postage	17,301
Travel	15,264
Equipment rent	8,742
Consulting fees	2,927
Insurance	6,849
Professional fees	6,310
Telephone	3,728
Maintenance agreements	4,923
Miscellaneous expense	3,143
Small equipment	24,629
Depreciation	2,060
Advertising	<u>852</u>

Total Indirect Overhead Costs 270,206

Total Indirect Overhead and Building Costs 288,078

Direct Costs

Programs	708,715
Fringe benefits	<u>127,684</u>

Total Direct Costs 836,399

Pass-Through Grants

Grant to Subrecipient - component unit	<u>147,279</u>
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Total Expenditures \$ 1,271,756

See Independent Auditor's Report

PLANNING AND DEVELOPMENT DISTRICT III

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - PAGE 1 OF 2
DECEMBER 31, 2011

FEDERAL FUNDING/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Pass-Through Entity Identifying Number	Expenditures/Disbursements		
			Direct	Pass Through	Total
<u>U.S. Department of Agriculture</u>					
Direct Funding:					
Intermediary Relending Program (Note 2)	10.767		\$ 1,663,801	\$ -	\$ 1,663,801 ***
Rural Business Opportunity Grant - Business Connection Grant	10.773		19,491	-	19,491
Rural Housing Service - Rural Community Development Initiative	10.446		4,076	-	4,076
Total U.S. Department of Agriculture			1,687,368	-	1,687,368
<u>U.S. Department of Commerce</u>					
Direct Funding:					
Economic Adjustment Assistance (Title IX Revolving Loan Program) (Note 3) Economic Development Assistance	11.307		1,604,157 27,750	- -	1,604,157 27,750 **
			1,631,907	-	1,631,907
Economic Development - Support for Planning Organizations EDA	11.302		73,000	-	73,000
Total U.S. Department of Commerce			1,704,907	-	1,704,907
<u>Small Business Administration</u>					
Passed through the University of South Dakota:	59.037				
Small Business Development Center		9-603001Z0044-25	-	65,000	65,000
Manufacturer's Certification		0-601003-Z-0044S-26-1	-	35,333	35,333
Total Small Business Administration			-	100,333	100,333
<u>U.S. Department of Defense</u>					
Passed through the University of South Dakota:					
Procurement Technical Assistance for Business Fir	12.002	SP 4800-09-2-0883	-	40,039	40,039
Total U.S. Department of Defense			-	40,039	40,039
Total Federal Funding			\$ 3,392,275	\$ 140,372	\$ 3,532,647

See independent Auditor's Report

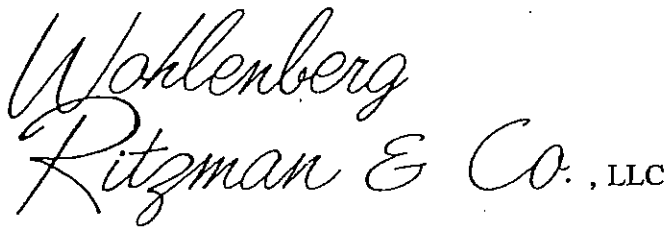
PLANNING AND DEVELOPMENT DISTRICT III

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - PAGE 2 OF 2
DECEMBER 31, 2011**

	<u>Regular EDA Funded Grant</u>	<u>Flood EDA Funded Grant</u>	<u>Recovery EDA Funded Grant</u>	<u>Total</u>
** Balances of notes receivable at December 31, 2011	\$ 789,517	\$ 176,166	\$ 520,592	\$ 1,486,275
Cash balance at December 31, 2011	510,835	57,866	-	568,701
Administration expenses paid during fiscal year 2011	22,224	4,674	9,261	36,159
Balance of loans written off - current year	-	-	-	-
Total expenditures	<u>1,322,576</u>	<u>238,706</u>	<u>529,853</u>	<u>2,091,135</u>
Federal Share	<u>75.00</u>	<u>90.00%</u>	<u>75.00%</u>	<u>76.8377%</u>
Total Federal Expenditures	<u>\$ 991,932</u>	<u>\$ 214,835</u>	<u>\$ 397,390</u>	<u>\$ 1,604,157</u>
				<u>Intermediary Relending Program</u>
*** Balance of notes receivable at December 31, 2011				<u>\$ 1,675,174</u>

- Note 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in schedule may differ from amounts presented in, or used in the preparation of, the financial statements.
- Note 2: The outstanding balance of federal loans from the U.S. Department of Agriculture at December 31, 2011 was \$1,600,844. The loan balance outstanding, which have continuing compliance requirements, is also included in the federal expenditures presented in the schedule.
- Note 3: This represents a Major Federal Financial Assistance Program.
In 2011, the District received \$127,279 of new Title IX Revolving Loan Program funds (CFDA 11.307), which was passed through to component unit, Areawide Business Council, Inc.

See independent Auditor's Report



certified public accountants

INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To The Board of Directors
Planning and Development District III
Yankton, South Dakota

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of Planning and Development District III (the District) as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

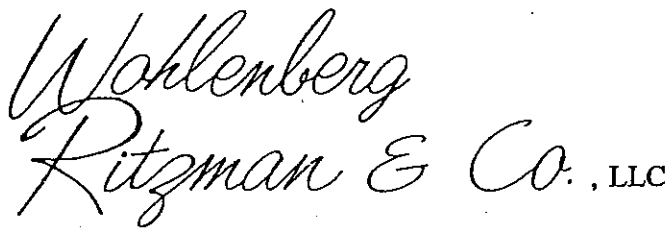
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that were reported to the District's management in a separate letter dated August 20, 2012.

This report is intended solely for the information and use of management, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yankton, South Dakota
August 20, 2012

Wohlenberg Ritzman & Co., LLC



certified public accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Board of Directors
Planning and Development District III
Yankton, South Dakota

Compliance

We have audited Planning & Development District III's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

Management of Planning & Development III is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of management, Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yankton, South Dakota
August 20, 2012

Wohlenberg Ritzman + Co., LLC

PLANNING AND DEVELOPMENT DISTRICT III

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011**

SECTION II. FINDINGS - FINANCIAL STATEMENTS

None reported.

**SECTION III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD
PROGRAMS**

None reported.

PLANNING AND DEVELOPMENT DISTRICT III

**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses _____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses _____ yes X none reported

Type of auditor's report issued on compliance for major programs

Unqualified

Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133

_____ yes X no

Identification of major programs:

CFDA Numbers
11.307

Name of Federal Program or Cluster
Economic Adjustment Assistance
(Title IX Revolving Loan Program)

Dollar Threshold used to distinguish between Type A and Type B Programs:

\$300,000

Auditee qualified as low-risk auditee?

X yes _____ no

PLANNING AND DEVELOPMENT DISTRICT III

**SCHEDULE OF CURRENT FINDINGS AND QUESTIONED COSTS - continued
FOR THE YEAR ENDED DECEMBER 31, 2011**

SECTION II. FINDINGS - FINANCIAL STATEMENTS

There are no financial statement audit findings.

SECTION III. FINDINGS - MAJOR FEDERAL AWARD PROGRAMS

There are no major federal award program findings.